



SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE
STATEMENT OF ESTIMATED FISCAL IMPACT
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Bill Number: H. 3768 As signed by the Governor on April 29, 2016
Author: G. M. Smith
Subject: SC Able Savings Program
Requestor: House of Representatives
RFA Analyst(s): Fulmer, Gardner, Shuford, and Stein
Impact Date: June 30, 2016

Estimate of Fiscal Impact

	FY 2016-17	FY 2017-18
State Expenditure		
General Fund	\$1,696,000	\$1,121,000
Other and Federal	\$0	\$0
Full-Time Equivalent Position(s)	0.00	0.00
State Revenue		
General Fund	(\$724,140)	\$0
Other and Federal	\$0	\$0
Local Expenditure	\$0	\$0
Local Revenue	\$0	\$0

Fiscal Impact Summary

This bill as amended would have a recurring General Fund expenditure impact of \$1,121,000 for FY 2016-17 and each year thereafter, as well as a nonrecurring General Fund expenditure impact of \$575,000 for FY 2016-17. There is no expenditure impact to Federal Funds or Other Funds. This bill would reduce General Fund individual income tax revenue by \$724,140 beginning in FY 2016-17.

Explanation of Fiscal Impact

Explanation of Amendment by the Senate on March 22, 2016

State Expenditure

This bill as amended establishes the South Carolina ABLE Savings Program and authorizes the establishment of savings accounts for individuals with disabilities. These savings accounts can be used to supplement benefits for disability-related expenses provided through private insurance, Medicaid, the supplemental security income program, the beneficiary’s employment, and other sources. Designated beneficiaries of the program can be residents or non-residents of South Carolina. The bill as amended further provides guidelines for the maintenance of these accounts.

The Department of Social Services, Department of Disabilities and Special Needs, and Department of Health and Human Services indicate there is no expenditure impact to the General Fund, Federal Funds, or Other Funds.

Office of State Treasurer. The Treasurer's Office indicates there may not be enough revenue available in the South Carolina ABLE Savings Expense Fund to cover first year recurring and nonrecurring expenses. STO estimates a total recurring expenditure of \$1,121,000 to the General Fund, with \$200,000 for salaries and fringe benefits and other additional recurring expenditures for office expenses, marketing and consumer outreach, investment management, legal analysis and offering statements, industry consultants, annual audit consultants, and investment oversight consultants. There will be a nonrecurring expenditure impact of \$575,000 for account maintenance and record keeping, legal analysis, contract negotiations, and creation of marketing materials and a website. The total General Fund expenditure impact will be \$1,696,000 for recurring and nonrecurring expenses for FY2016-17 and \$1,121,000 for recurring expenses every year thereafter. There is no expenditure impact to Federal Funds and Other Funds.

State Revenue

This amended bill adds two deductions from South Carolina taxable income in Section 12-6-1140. The first deduction is for contributions made to a South Carolina ABLE Savings Program or a qualified account located in another state established pursuant to Section 529A of the Internal Revenue Code. The second deduction is for interest earnings and qualified distributions from the South Carolina savings program or a qualified account located in another state established pursuant to Section 529A of the Internal Revenue Code. Maximum contributions by federal law are limited to \$14,000 for 2016 and are adjusted annually for inflation. Based on U.S. Joint Committee on Taxation revenue estimates for the Tax Increase Prevention Act of 2014 adjusted for South Carolina taxpayers only, we expect that the exclusion of contributions, interest earnings, and qualified distributions from South Carolina taxable income will amount to \$13,410,000. These deductions will decrease General Fund individual income tax revenue by \$724,140 beginning in FY 2016-17.

Local Expenditure

N/A

Local Revenue

N/A

Explanation of Amendment by the House of Representatives on April 29, 2015

State Expenditure

This bill as amended establishes the South Carolina ABLE Savings Program and authorizes the establishment of savings accounts for individuals with disabilities. These savings accounts can be used to supplement benefits for disability-related expenses provided through private insurance, Medicaid, the supplemental security income program, the beneficiary's employment, and other sources. The bill further provides guidelines for the maintenance of these accounts.

The Department of Social Services, Department of Disabilities and Special Needs, and Department of Health and Human Services indicate there is no expenditure impact to the General Fund, Federal Funds, or Other Funds.

Office of State Treasurer. The Treasurer's Office indicates there may not be enough revenue available in the South Carolina ABLE Savings Expense Fund to cover first year recurring and

nonrecurring expenses. STO estimates a total recurring expenditure of \$1,121,000 to the General Fund, with \$200,000 for salaries and fringe benefits and other additional recurring expenditures for office expenses, marketing and consumer outreach, investment management, legal analysis and offering statements, industry consultants, annual audit consultants, and investment oversight consultants. There will be a nonrecurring expenditure impact of \$575,000 for account maintenance and record keeping, legal analysis, contract negotiations, and creation of marketing materials and a website. The total General Fund expenditure impact will be \$1,696,000 for recurring and nonrecurring expenses for FY2016-17 and \$1,121,000 for recurring expenses every year thereafter. There is no expenditure impact to Federal Funds and Other Funds.

State Revenue

This bill amends Section 12-6-1140 by adding two deductions from South Carolina taxable income. The first deduction is for contributions made to a South Carolina ABLE Savings Program and the second is for interest earnings and qualified distributions from the savings program. Maximum contributions by federal law are limited to \$14,000 for 2016 and are adjusted annually for inflation. Based on U.S. Joint Committee on Taxation revenue estimates for the Tax Increase Prevention Act of 2014 adjusted for South Carolina taxpayers only, we expect that the exclusion of contributions, interest earnings, and qualified distributions from South Carolina taxable income will amount to \$13,410,000. These deductions will decrease General Fund individual income tax revenue by \$724,140 beginning in FY 2016-17.

Explanation of Amendment by the Ways and Means Committee on April 16, 2015

State Expenditure

This bill establishes the South Carolina ABLE Savings Program and authorizes the establishment of savings accounts for individuals with disabilities, which can be used to provide for disability-related expenses that supplement any private insurance, Medicaid assistance, Supplemental Security Income Program under the Social Security Act, and other income sources. The State Treasurer shall implement and administer the program. All expenses incurred by the State Treasurer must be payable from the South Carolina ABLE Savings Expense Fund. The State Treasurer, the Department of Social Services, the Department of Health and Human Services, and the Department of Disability and Special Needs are authorized to exchange data regarding eligible individuals to carry out the purposes of this bill.

Office of State Treasurer. The Treasurer's Office indicates that first year expenses for developing and administering the ABLE Program will exceed any revenue available in the South Carolina ABLE Savings Expense Fund. This fund receives revenue from the program manager, public and private grants, and General Fund appropriations. The Treasurer's Office estimates General Fund recurring expenditures of \$599,537 for salaries and fringe benefits for two new FTEs, a Program Manager at \$67,108 and a Program Coordinator at \$45,326. Other anticipated expenditures include office space, computers and equipment, printing costs, marketing costs, investment consultant expenses, and website maintenance costs. Additionally, the Treasurer's office estimates non-recurring expenditures of \$540,000 for legal analysis, contract negotiations, creation of marketing materials and disclosure documents, and creation of a website. The expenditure impact will total \$1,139,537 in FY 2015-16. Federal Funds and Other Funds will not be affected.

Department of Social Services. The department indicates that this bill would have no impact on General Fund, Other Fund, or Federal Fund expenditures.

Department of Health and Human Services. The department indicates that this bill would have no impact on General Fund, Other Fund, or Federal Fund expenditures.

Department of Disabilities and Special Needs. The department indicates this bill would have no expenditure impact on the General Fund, Federal Funds, or Other Funds.

State Revenue

This bill mandates that interest earnings and qualified distributions from the South Carolina ABLE Savings Program are not subject to South Carolina income tax. Unlike the South Carolina Future Scholar Program, contributions to the ABLE Program are not deductible from South Carolina income tax. Maximum contributions by federal law are limited to \$14,000 for 2015 and are adjusted annually for inflation.

Based on U.S. Joint Committee on Taxation revenue estimates for the Tax Increase Prevention Act of 2014 adjusted for South Carolina taxpayers only, we expect that the exclusion of interest earnings and qualified distributions from South Carolina taxable income will decrease General Fund individual income tax revenue by \$231,100 in FY 2016-17.

Local Expenditure

N/A

Local Revenue

N/A



Frank A. Rainwater, Executive Director